

ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

OCTOBER 2005

HIGHLIGHTS

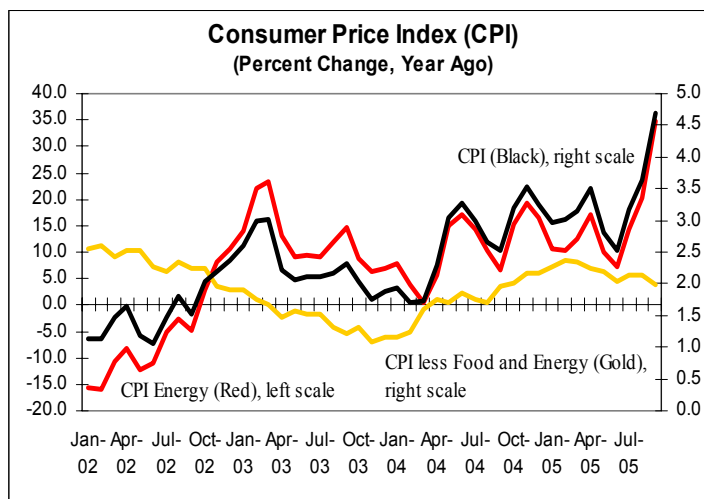
Summary

Federal Reserve policymakers have expressed concern about inflationary pressures and are likely to continue increasing their target short-term interest rate. The Fed's recent report on regional economic activity across the nation also tends to support the argument for further rate hikes. Rising energy prices have boosted overall consumer price inflation. Energy prices jumped about 35 percent over the year in September. Excluding the more volatile food and energy components, core consumer prices are rising at a moderate pace between 2 and 2.5 percent.

But rising energy prices are prompting businesses to pass through, at least in part, the impact of higher fuel costs and this, in turn, would feed into core inflation. In addition, labor markets outside the Gulf Coast region remain generally healthy and rebuilding in the gulf area will add to pressures on materials and other resources.

The nation's job growth rate edged up in August to 1.8 percent. The Bureau of Labor Statistics reported that the employment numbers for August were not affected by Hurricane Katrina, which occurred after the survey's reference period. Nationally, the construction industry remains the leader in job growth, maintaining an expansion of roughly 4 percent over the year. Professional and business services, education and health services and leisure and hospitality continue to provide strong support. Employment in the nation's manufacturing sector was down over the year.

Maryland's job growth rate slowed to 1.8 in August, compared to the same period a year ago. Leisure and hospitality and professional and business services remain the fastest growing major sectors. Job growth in the education and health services sector continues to slow, but the pace of employment gains in other sectors—including financial activities and transportation, warehousing and utilities—has picked up recently. Retail trade is also faring somewhat better compared to earlier this year.



State's Job Growth Leads in Region

Maryland's job growth rate slowed to 1.8 percent in August, resulting in a ranking of 14th in the nation. However, the state outpaced all neighboring jurisdictions.

Unemployment Rate Remains Low

The state's unemployment rate in August stood at 4.3 percent, compared to 4.9 percent for the nation. Maryland's unemployment was better than most neighboring jurisdictions, with the exception of Virginia and Delaware.

Core Inflation Remains Moderate

Recent data on consumer prices showed the overall index rising by nearly 5 percent over the year in September. But core consumer prices—excluding food and energy components—rose by only 2 percent from the same period a year ago.

Unemployment Rate

Unemployment in Maryland (not seasonally adjusted) was up slightly, rising to 4.3 percent in August compared to 4.2 percent for the same period a year ago. Year-to-date the state's unemployment rate averaged 4.4 percent, slightly higher than the 4.3 percent for the same

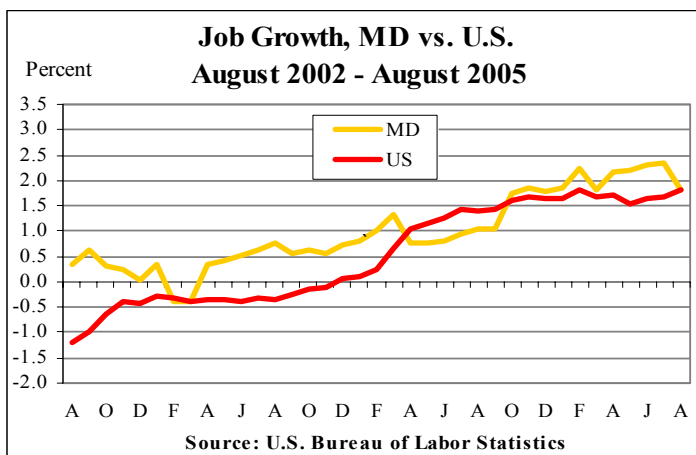
(continued on page 5)

Robert L. Ehrlich, Jr.
Governor
Michael S. Steele
Lt. Governor
Aris Melissaratos
Secretary

Jobs and Sectors

Jobs

Between August 2004 and August 2005 the state gained more than 46,000 net new jobs as growth eased to 1.8 percent. Leisure and hospitality, professional and business services and education and health services continue to support the economy. Employment gains in these three sectors provided about 34,000 net new jobs over the year. Trade, transportation and utilities also contributed 8,400 jobs over the year. Manufacturing remains weak.



Nationally, the job growth rate was up slightly in August, rising by 1.8 percent from the same period a year ago. Construction continues to lead the other sectors in job growth, but the year-over-year growth has shown some signs of slowing in recent months. Professional and business services,

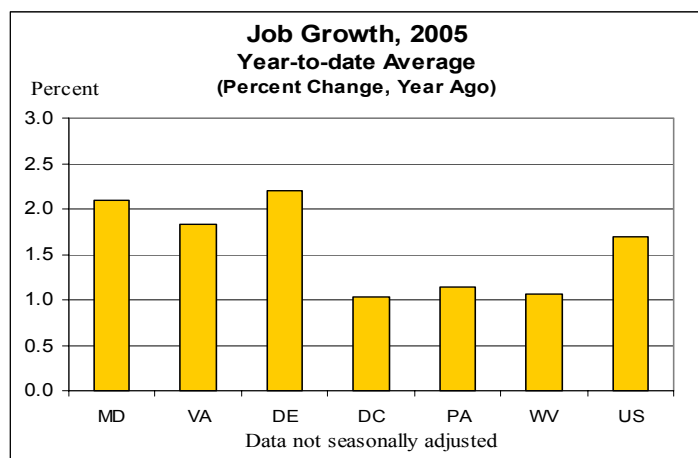
Maryland vs. U.S. Job Growth Rate (Percent Change, Year Ago)

Month	MD	U.S.
Aug-04	1.0	1.4
Sep-04	1.0	1.4
Oct-04	1.8	1.6
Nov-04	1.9	1.7
Dec-04	1.8	1.6
Jan-05	1.8	1.7
Feb-05	2.2	1.8
Mar-05	1.8	1.7
Apr-05	2.2	1.7
May-05	2.2	1.5
Jun-05	2.3	1.7
Jul-05	2.3	1.7
Aug-05	1.8	1.8

education and health services and leisure and hospitality are also providing support for the economy.

Job Growth Ranking

The state's job growth rate of 1.8 percent in August yielded a ranking of 14th in the nation. Maryland slipped out of the top 10 in job growth, held in the previous four months, but outpaced neighboring jurisdictions. Year-to-date the state's average job growth rate registered 2.1 percent, retaining the ranking of 12th.



The year-to-date rankings and average job growth rates for selected jurisdictions include: Delaware, 11th (2.2 percent); Virginia, 16th (1.8 percent); Pennsylvania, 35th (1.1 percent); West Virginia, 38th (1.1 percent); and the District of Columbia, 39th (1.0 percent). Virginia's year-over-year job growth rate has slowed to 1.4 percent in recent months, weighing down its ranking. Delaware's ranking has also slipped as growth from a year ago has slowed as well—the August increase of 1.75 percent was below 2 percent for the first time this year.

States with the fastest average job growth rate year-to-date remain primarily in the West. The top 10 states included Nevada (6.5 percent), Arizona (4.1 percent), Utah (3.6 percent), Oregon (3.5 percent), Idaho (3.3 percent), Florida (3.2 percent), Hawaii (2.9 percent), Wyoming (2.4 percent), Washington (2.3 percent) and Colorado (2.3). Nationally, the year-to-date job growth rate registered 1.7 percent.

Leisure and Hospitality

Employment in the state's leisure and hospitality sector rose by 15,100 jobs between August 2004 and August 2005—a gain of 6.2 percent from the same period a year ago. Accommodation and food services rose 5.7 percent over the

(continued on page 3)

Jobs and Sectors (continued from page 2)

year, with an addition of 11,400 net new jobs. Food services and drinking places accounted for much of the increase, adding 11,100 new jobs for a gain of 6.5 percent.

Other tourism-related data were mixed. The hotel occupancy rate for August was up about a percentage point from a year ago. But visitor volume at state welcome centers slumped 11.5 percent over the year. Hotel sales tax receipts were up 3 percent.

Retail Sales

Employment in the state's retail trade industry rose by 2 percent between August 2004 and August 2005, generating 6,600 net new jobs. The faster growing sectors included food and beverage (up 2.3 percent), miscellaneous retailers (up 2.6 percent) and general merchandise (up 5.4 percent). Within the general merchandise sector, employment at department stores rose 7 percent over the year. Nationally, employment in the retail sector was up by 1.6 percent over the year.

Preliminary data from the University of Michigan Consumer Sentiment Survey for October revealed a slight decline—down 1.5 points to 75.4—from the previous month. Both the present conditions and expectation components of the index were lower. However, consumer spending continues to hold up as year-over-year retail sales for September, excluding autos and gasoline, rose nearly 7 percent—about the same pace as in the previous two months.

Health Services

Maryland's health care sector (including social assistance) yielded 4,900 net new jobs in August, an increase of 1.7 percent from the same period a year ago. Within the health care sector, health care service providers generated 1,000 jobs (up 1.1 percent) and hospitals added 1,500 jobs (up 1.6 percent). Nursing and residential care facilities created 500 net new jobs, for an increase of less than 1 percent.

Home Sales and Building Permits

Existing home sales in Maryland were weak for a second month, rising by less than 1.0 percent in August, following a decline of 1 percent in the previous month. Nationally, home sales jumped by 10 percent over the year. The state's permits for new residential units increased by nearly 8 percent in August, but slower than the 11 percent pickup for the nation. Job growth in the state's construction sector rose 0.5 percent over the year, while employment in the nation's construction industry continued to expand with a 4 percent increase.

Other Industries

Job growth in the state's professional and business services sector backed off in August, rising 3.5 percent compared to gains of at least 4 percent in the previous four months. But the sector has still outpaced other major industries in Maryland, except for leisure and hospitality, and generated 13,400 net new jobs over the year. Nationally, the job growth rate for professional and business services continued to rise at a slower pace relative to the state, up 3.2 percent from the same period a year ago.

Employment in other services was up 3.6 percent in Maryland between August 2004 and August 2005, while the U.S. rose by less than 1 percent. The job base in the state's government sector was virtually unchanged over the year, while the nation's government sector posted a gain of 1 percent.

Manufacturing

The decline in Maryland's manufacturing sector picked up in August. The state lost 3.8 percent of its job base over the year—a decrease of 5,400 jobs. But the computer and electronic product sector continues to buck the trend in manufacturing with an addition of 300 net new jobs—an increase of 1 percent. Industry earnings climbed 7 percent and average weekly hours in manufacturing rose about 1 percent.

Nationally, employment in the manufacturing industry has weakened as well. High and rising energy prices remain a concern for the sector. Industry earnings were up 2 percent in the nation, but average weekly hours in manufacturing fell about 1 percent.

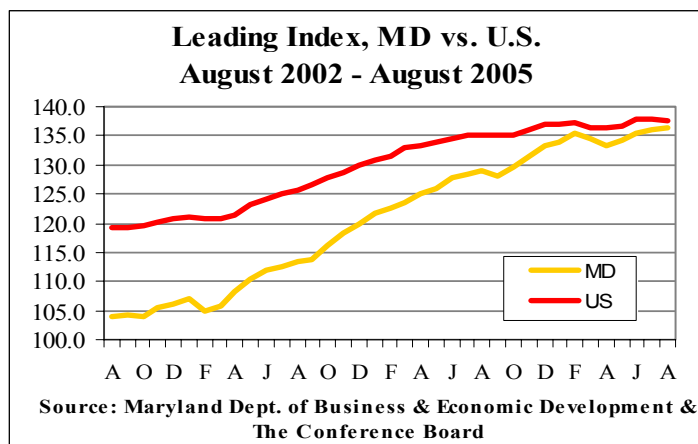
Percent Change in Jobs August 2004 - August 2005

	MD	U.S.
Leisure and Hospitality	6.2	2.6
Professional and Business Services	3.5	3.2
Financial Activities	2.4	2.3
Trade, Transportation and Utilities	1.8	1.7
Retail	2.2	1.6
Education and Health Services	1.6	2.5
Health Care and Social Assistance	1.7	2.4
Construction, Mining, Natural Resources	0.5	4.0
Information	0.6	0.6
Manufacturing	-3.8	-0.7
Other Services	3.6	0.7
Government	0.0	1.0
Total	1.8	1.8

Maryland Leading and Coincident Indices

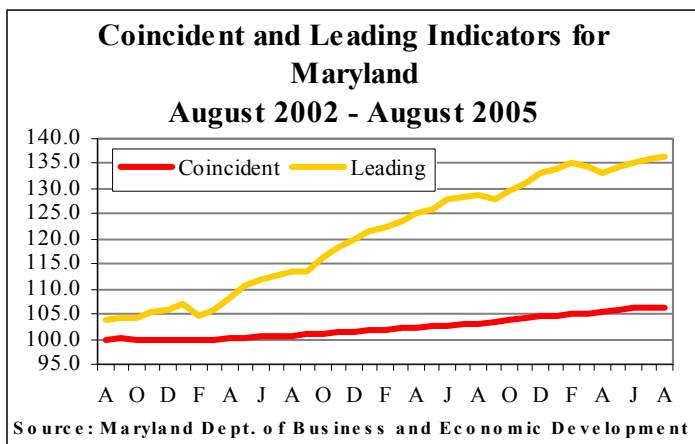
The Maryland index of leading indicators provides an outlook for the economy over the coming six to nine months. The leading index rose 0.2 percent in August. The main state components propping up the indicator included average weekly hours in manufacturing, new residential permits and the stock index. In addition, two of the three national components provided a positive contribution to the indicator. The state index was also up about 6 percent from the same period a year ago.

The U.S. leading index declined 0.2 in August, weighed down by the fall in consumer expectations. The indicator rose about 2 percent over the year. The national index could tick lower, reflecting weaker growth in the latter part of this year due to the impact of the recent storms in the Gulf Coast. But analysts expect rebuilding efforts to help boost growth early next year.



The coincident index provides a reading on current economic conditions in Maryland and is used to help track the performance of the economy. The revised coincident index stood at 106.4 in August, rising 0.1 percent from the previous month and increasing by 3 percent from the same period a year ago. The strong improvement in the present situation component of the consumer confidence index helped to offset the decrease in seasonally adjusted employment and the slight rise in the unemployment rate. In addition, the revision also includes updates to the state's personal income and recent data for the second quarter of this year—rising by more than 6 percent from the same period a year ago. The year-over-year growth in the index continues to expand at a relatively strong pace.

In August, the U.S. coincident indicator was up 0.2 from the previous month and increased by 2.7 percent from the same period a year ago.



Labor Force

The recent year-over-year growth in Maryland's labor force has picked up substantially compared to earlier this year. From January through April, the increase from a year ago in the labor force was about 1 percent or less. Since May, the growth in the labor force expanded at a rate of 2 percent—in August, the year-over-year growth rate was about 3 percent. Initial claims for unemployment insurance (UI) fell 4 percent between August 2004 and August 2005. Nationally, UI claims were down about 4 percent as well. The Baltimore Sun's help-wanted counts plunged sharply from a year ago.

Labor Market Trends (Percent Change, August 2004 - August 2005)

	MD	U.S.
Civilian Labor Force	2.9	1.6
Employment by Place of Residence	2.7	2.1
Change in Initial UI Claims	-4.0	-3.9
Help-wanted Counts	-38.9	—
Unemployment Rate (current month, %)	4.3	4.9

Focus: Regional Economic Activity

The recent Beige Book report, a Federal Reserve publication describing economic activity in 12 regions of the nation, provides a fairly positive view of the economy in September and early October. Business activity continued to expand as most districts reported the pace of activity as moderate or gradual. Retail sales increased in most regions but retailers indicated that consumer confidence has receded as gasoline prices have risen, and a few regions reported that sales were weaker than expected. Residential real estate markets remained generally strong, but the demand for homes is showing some signs of easing. Reports on commercial real estate activity were also positive, with indications of rising demand for office, retail or industrial space. Employment is rising and some tightening in labor markets was noted, but wage pressures were generally moderate. Various districts reported cost increases for energy, building materials and shipping. A few regions indicated that cost increases are being passed through to retail prices. Overall, the report depicts a fairly resilient economy and the outlook appears favorable for economic activity going forward, but the movement in energy-related prices remains a key factor.

Business activity in Maryland—as well as the District of Columbia, North Carolina, South Carolina, Virginia and most of

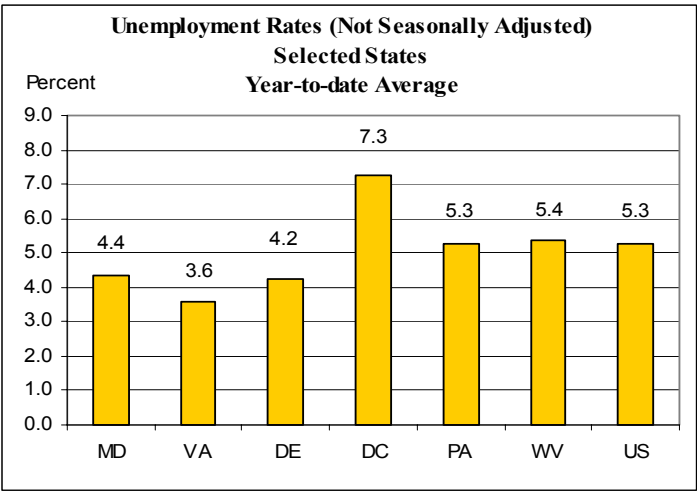
West Virginia—is included in the region covered by the Federal Reserve Bank of Richmond. The report indicated that economic activity expanded at a somewhat quicker pace since the last report early in September. The services sector reported stronger growth in revenue, with hiring growing moderately and price increases modest—despite rising transportation-related prices. Retailers reported moderate growth in shopper traffic and sales, as higher gasoline prices may have been hindering sales. However, retailers were also reported to be passing along some of the higher costs of energy and commodities. The housing market was mostly strong in September, but there were increasing signs that real estate activity appeared to be moderating. Commercial real estate is experiencing steady growth in leasing activity as demand for office and retail space improved. Tourism activity slowed, with some businesses attributing the results to higher gasoline prices.

Unemployment Rate (continued from page 1)

period a year ago, but generally lower than most neighboring jurisdictions, with the exception of Virginia (3.6 percent) and Delaware (4.2 percent). The year-to-date increase in the state's unemployment rate reflects a slightly slower increase in employment by place of residence relative to the labor force, with both growing faster than 1 percent. Maryland's year-to-date average of 4.4 percent ranked the 15th lowest in the nation. The U.S. unemployment rate year-to-date registered 5.3 percent.

Unemployment Rates (Percent)				
	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
Aug 2005	4.3	4.9	4.4	4.9
Jul 2005	4.4	5.2	4.3	5.0
Aug 2004	4.2	5.4	4.3	5.4

Source: U.S. Bureau of Labor Statistics



Selected Monthly Economic Indicators

Selected Indicators	Maryland					U.S.				
	Aug 2005	Jul 2005	Percent Change From Last Month	Aug 2004	Percent Change From Last Year	Aug 2005	Jul 2005	Percent Change From Last Month	Aug 2004	Percent Change From Last Year
Labor Market										
Labor Force (U.S. in Thousands)	2,978,899	2,992,092	-0.4	2,895,775	2.9	150,469	151,122	-0.4	148,166	1.6
Employment (U.S. in Thousands)	2,849,759	2,859,272	-0.3	2,773,865	2.7	143,142	143,283	-0.1	140,226	2.1
Unemployment Rate	4.3	4.4	-2.3	4.2	2.4	4.9	5.2	-5.8	5.4	-9.3
Sun Help-Wanted Counts, Baltimore MSA	9,097	10,624	-14.4	14,898	-38.9					
Initial Claims for Unemployment Insurance	15,378	16,058	-4.2	16,026	-4.0	1,193,034	1,431,771	-16.7	1,241,865	-3.9
Jobs and Sectors (Jobs in Thousands)										
Total Non-Agricultural Employment	2,592.0	2,598.1	-0.2	2,545.6	1.8	133,793	133,583	0.2	131,416	1.8
Construction, Mining & Natural Resources	184.9	184.9	0.0	184.0	0.5	8,224	8,182	0.5	7,904	4.0
Manufacturing	138.5	138.9	-0.3	143.9	-3.8	14,344	14,304	0.3	14,449	-0.7
Trade, Transportation, Utilities	474.7	475.6	-0.2	466.3	1.8	25,937	25,903	0.1	25,512	1.7
Information	51.1	51.1	0.0	50.8	0.6	3,164	3,166	-0.1	3,146	0.6
Financial Activities	160.9	160.8	0.1	157.1	2.4	8,306	8,300	0.1	8,118	2.3
Professional & Business Services	392.6	395.0	-0.6	379.2	3.5	17,197	17,078	0.7	16,661	3.2
Education & Health Services	352.7	354.5	-0.5	347.0	1.6	17,041	17,044	0.0	16,631	2.5
Leisure & Hospitality	257.3	257.1	0.1	242.2	6.2	13,411	13,428	-0.1	13,065	2.6
Other Services	119.0	120.0	-0.8	114.9	3.6	5,518	5,545	-0.5	5,479	0.7
Government	460.3	460.2	0.0	460.2	0.0	20,651	20,633	0.1	20,451	1.0
Average Weekly Earnings (\$)	702.83	681.65	3.1	657.60	6.9	673.96	657.95	2.4	660.94	2.0
Average Weekly Hours	40.3	39.7	1.5	40.0	0.7	40.6	39.9	1.8	40.9	-0.7
Business and Consumer Markets										
BWI Cargo (Metric Tons)	21,318	20,219	5.4	20,105	6.0					
BWI Passengers (Millions)	1.87	1.93	-3.3	1.87	-0.4					
Electric Meters Installed, Commercial ¹	201	192	4.7	229	-12.2					
Electric Meters Installed, Residential ¹	1,163	1,325	-12.2	930	25.1					
Electricity Sales, Commercial (Millions of MWh) ¹	1.76	1.49	18.2	1.59	10.8					
Electricity Sales, Residential (Millions of MWh) ¹	1.16	0.82	41.9	1.09	6.7					
Existing Home Sales (U.S. in Thousands)	10,284	9,730	5.7	10,205	0.8	746	690	8.1	676	10.4
New Auto Registration (U.S. seasonally adjusted)	45,547	38,189	19.3	37,175	22.5	N/A	1,574,317	N/A	1,425,922	N/A
New Residential Permits Authorized	3,182	2,062	54.3	2,955	7.7	201,179	182,916	10.0	181,122	11.1
Indexes										
Leading Index	136.3	136.1	0.2	128.9	5.8	137.6	137.9	-0.2	135.1	1.9
Coincident Index	106.4	106.2	0.1	103.1	3.2	121.1	120.9	0.2	117.9	2.7
Help-Wanted Index	40.6	47.4	-14.4	66.5	-38.9	35	39	-10.3	37	-5.4
CPI	N/A	125.0	N/A	N/A	N/A	196.4	195.4	0.5	189.5	3.6
Stock Index	326.6	324.9	0.5	260.5	25.4	1,220.3	1,234.2	-1.1	1,104.2	10.5
Tourism										
Hotel /Motel Occupancy Rate (%)	73.8	78.1	-5.5	72.6	1.7					
State Welcome Center Visitors	215,357	249,313	-13.6	243,468	-11.5					
Amusement & Admission Tax (Millions of Dollars)	N/A	7.02	N/A	5.69	N/A					
Hotel /Motel Sales Tax (Millions of Dollars)	7.16	7.12	0.6	6.97	2.8					

Notes:

¹BGE data are for June 2005.



Robert L. Ehrlich, Jr., Governor
Michael S. Steele, Lt. Governor

Aris Melissaratos, Secretary, Department of Business and Economic Development
Rhonda Ray, Assistant Secretary, Division of Economic Policy, Research and Legislative Affairs

Economic Pulse is published monthly by the
Division of Economic Policy, Research and Legislative Affairs

Editorial Assistance, James R. Moody
Contributing Editors, Roger Fujihara, Nancy McCrea
Graphic Design, James R. Moody, Roger Fujihara
Distribution, Elver Bell

The *Economic Pulse* is available on the Internet at:
www.choosemaryland.org/pressroom/publications/